



**PUBLIC ADMINISTRATOR
PULASKI COUNTY, MISSOURI**

**From The Office Of State Auditor
Claire McCaskill**

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AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

June 2004

The following report is our audit of the Public Administrator, Pulaski County, Missouri.

The Pulaski County Public Administrator contacted the State Auditor's Office and the Missouri State Highway Patrol in November 2003 concerning possible misappropriations discovered in her wards' checking accounts. Weaknesses in the internal control system and record keeping system of the Public Administrator's office allowed misappropriations of at least \$40,808 to occur during the period January 1, 2002 through November 7, 2003. These misappropriations may have been detected on a more timely basis if adequate oversight and reviews had been performed and if internal controls had been established. In addition, the Public Administrator identified additional misappropriations of at least \$1,814 made during 2000 and 2001. Information regarding these misappropriations has been shared with law enforcement authorities.

The former accounting clerk also made unauthorized transfers among various accounts of at least \$98,277, in part to attempt to conceal the various misappropriations and shortages. The accounting records indicate another \$13,675 was received but never deposited into various accounts, which may represent additional misappropriations.

Accounting and bookkeeping duties were not adequately segregated, and the Public Administrator did not perform supervisory reviews of the accounting records. Checks were not always issued in numerical sequence and several check numbers were not accounted for. Some annual settlements prepared by the Public Administrator's office were not complete or accurate, and some settlements were approved by the Probate Court without corresponding bank statements and cancelled checks being filed.

The Public Administrator's former accounting clerk has been charged with 28 counts of felony stealing.

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YELLOW SHEET

PUBLIC ADMINISTRATOR
PULASKI COUNTY, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Public Administrator
Pulaski County, Missouri

We have audited the Public Administrator of Pulaski County, Missouri. The scope of this audit included, but was not necessarily limited to, the period January 1, 2002 through November 7, 2003. The objectives of this audit were to:

1. Investigate irregularities in the disbursement of estate funds held by the Public Administrator.
2. Determine the extent of any funds misappropriated from the Public Administrator's estates.
3. Review certain internal controls regarding the disbursement of and accounting for estate funds.
4. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed 28 of approximately 90 estates handled by the Public Administrator. We reviewed bank statements, canceled checks, check registers, annual settlements, and other pertinent documents for each applicable estate and interviewed various personnel of the Public Administrator's office and the Associate Circuit Division (Probate Court), as well as certain external parties. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
2. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide

reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying Management Advisory Report presents our findings arising from our audit of the Public Administrator of Pulaski County, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

March 9, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
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EXECUTIVE SUMMARY

PUBLIC ADMINISTRATOR
PULASKI COUNTY, MISSOURI
EXECUTIVE SUMMARY

Weaknesses in the internal control and record keeping systems of the Public Administrator's office allowed misappropriations of at least \$40,808 to occur during the period January 1, 2002 through November 7, 2003. In addition, the Public Administrator identified additional misappropriations of at least \$1,814 made during 2000 and 2001.

These misappropriations may have been detected on a more timely basis if adequate oversight and reviews had been performed and if internal controls as noted in the accompanying Management Advisory Report had been established.

Paula Long Weber serves as Pulaski County Public Administrator. Cathi Leuthen was employed as the accounting clerk of the Public Administrator's office and her duties were to receive, record, deposit, and disburse monies and reconcile the bank accounts. Ms. Leuthen's employment with the county was terminated on November 7, 2003. Information regarding these misappropriations has been shared with law enforcement authorities. In April 2004, Ms. Leuthen was charged with 28 counts of felony stealing.

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

PUBLIC ADMINISTRATOR
PULASKI COUNTY, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

The Public Administrator acts as the court-appointed personal representative for wards of the Associate Circuit Division (Probate Court) and is responsible for receiving, disbursing, and accounting for the assets of those individuals. The Public Administrator is required to file annual settlements with the Probate Court for each of the wards' estates which reflect financial activity for the year. During the period January 1, 2002 through November 7, 2003, the Public Administrator had responsibility for approximately 90 wards.

The Pulaski County Public Administrator contacted the State Auditor's Office and the Missouri State Highway Patrol in November 2003 concerning possible misappropriations discovered in her wards' checking accounts. Based on this contact, the State Auditor's Office performed an audit of the Public Administrator's office. We reviewed 28 estates handled by the Public Administrator. The Public Administrator is currently reviewing all of her wards' estates in order to find any additional misappropriations, as well as to find and correct errors and omissions in the accounting records and to correct and file amended annual settlements with the Probate Court.

Following are our comments regarding the misappropriations and the related accounting controls and procedures.

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| 1. Misappropriated Funds and Unauthorized Transactions |
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At least \$42,622 was disbursed from various accounts of the Public Administrator for the apparent personal benefit of the former accounting clerk. This clerk also made unauthorized transfers among various accounts of at least \$98,377, in part to attempt to conceal the various misappropriations and shortages. The accounting records indicate \$13,675 was received but never deposited into various accounts, which may represent additional misappropriations. Overdraft and other bank service fees of at least \$946 were incurred on various accounts.

- A. Between January 1, 2002 and November 7, 2003, at least 19 checks totaling \$10,160 were issued by the former accounting clerk from several of the wards' checking accounts for money order purchases. There is no documentation to indicate these money orders were issued for the benefit of the wards. In addition, at least 17 checks totaling \$30,648 were issued by the former accounting clerk to various vendors, including credit card, cellular phone, and internet companies, which apparently did not benefit the applicable wards. It appears these checks and money orders were issued to personally benefit the former accounting clerk. Additionally, the Public Administrator noted at least 4 unauthorized checks issued by the former accounting clerk during 2000 and 2001, totaling \$1,814, for similar transactions.

Information regarding these misappropriations has been shared with law enforcement authorities.

- B. During the audit period, the former accounting clerk made at least \$98,377 in unauthorized transfers among various wards' checking accounts. The Public Administrator has reviewed these transfers and indicated there were no legitimate purposes for these transfers. It appears some of these transfers were made to attempt to conceal the misappropriations noted above, in which amounts were transferred from accounts that had significant unused funds to accounts from which funds had been misappropriated.

In addition, many of these transfers were apparently made to conceal or correct other accounting errors and omissions or to cover expenses incurred by wards that did not have sufficient funds to pay for these expenses. For example, some wards should have received federal and state aid to cover various expenses; however, because of various errors, such as the Public Administrator's office not filing the necessary paperwork, some wards did not receive revenues to which they were entitled. The Public Administrator should follow up to determine if the applicable wards are entitled to receive any additional revenues.

- C. Numerous receipts were recorded in various wards' accounting records which could not be traced to specific deposits. These were recorded as receipts for sheltered workshop wages, state grant proceeds, social security income, and dividend income, as well as other miscellaneous receipts. The Public Administrator has already followed up on some of these receipts and determined that some social security checks that were recorded as received were not deposited, and according to the payor, the checks were never cashed. The Public Administrator has requested the issuance of replacement checks. She has also determined that some of the amounts recorded as sheltered workshop wages were not actually paid to the various wards, so it appears these receipts were recorded in error. As of March 9, 2004 (fieldwork completion), additional follow up is needed on at least \$13,675 of receipts recorded during the audit period to determine if these amounts were received and not deposited, were recorded in error, or represent additional shortages or misappropriations.
- D. During the audit period, overdraft and other bank fees totaling at least \$946 were charged to the various wards' checking accounts. It appears that many of these charges resulted because of the various errors, omissions, and shortages noted above. The Public Administrator should review these fees and determine if any of these amounts can be recovered and credited back to the applicable accounts.

These misappropriations, errors, and omissions were allowed to occur and not be detected for a period of time due to a lack of control procedures being in place. Management Advisory Report (MAR) No. 2 addresses the needed controls.

WE RECOMMEND the Public Administrator continue working with law enforcement authorities and the Probate Court regarding any criminal prosecution and obtain full reimbursement of the misappropriated funds. In addition, the Public Administrator should return the improperly transferred monies to the proper accounts and determine if applicable wards are entitled to receive any lost state and federal aid, follow up and take appropriate action on the recorded receipts that were not deposited, and determine if the bank charges can be recovered and returned to the applicable accounts. Finally, the Public Administrator should continue to review all of her estates to identify and correct any additional misappropriations, errors, and omissions and prepare and file corrected or amended annual settlements.

AUDITEE'S RESPONSE

All bank accounts of the estates that I am responsible for have been reconciled and in proper order. I have already returned funds to the proper accounts where funds were available per order of the Probate Judge. We are reviewing each estate as their annual settlement is due as far back as three years and amending each settlement as needed. There has already been charges filed on my previous clerk where she had to post a \$50,000 cash bond. I will continue to work with law enforcement and report any other misappropriated funds that I may find.

2.

Accounting Controls and Procedures

Accounting duties were not adequately segregated and the Public Administrator did not prepare or document supervisory reviews. Checks were not issued in sequence, the numerical sequence was not accounted for, and numerous other errors were noted in the check registers maintained for the estates. Numerous errors and omissions were made on the annual settlements prepared by the Public Administrator's office. Some annual settlements were approved by the Probate Court even though bank statements and canceled checks were not always filed with the annual settlements prepared by the Public Administrator. The former employee responsible for handling estate funds was not bonded.

A. During the audit period, accounting duties were not adequately segregated. All accounting duties, including receiving, recording, depositing, and disbursing monies, and reconciling the bank accounts were performed by the former accounting clerk. While the Public Administrator indicated she periodically reviewed ward files, accounting records, and bank reconciliations, she did not document these reviews, and there are no records that show the former accounting clerk was preparing accurate bank reconciliations. Since the misappropriations were discovered, the Public Administrator indicated she has been reviewing each bank reconciliation prepared by the current accounting clerk and documenting her review.

Internal controls would be improved by segregating the duties of receiving and recording monies from the duties of depositing and disbursing monies. If duties

cannot be adequately segregated, at a minimum, the Public Administrator should continue to periodically review the accounting records and bank reconciliations, compare monies received with deposits, and ensure records appear accurate. Failure to adequately segregate duties or provide a supervisory review increases the risk that errors or irregularities will not be detected in a timely manner.

A similar condition was noted in our audit of Pulaski County for the Two Years Ended December 31, 2002, issued September 30, 2003. The Public Administrator indicated she had started implementing our recommendations during 2003, subsequent to the issuance of the audit, and this helped her detect the misappropriations noted in MAR No. 1.

- B. Checks were not always issued in numerical sequence for various estates, and several check numbers were not recorded on the check registers or otherwise accounted for. In addition, there were numerous other errors and omissions on the check registers, including checks recorded as void which actually cleared the bank, check amounts recorded differently than the amounts that cleared the bank, and checks which were recorded but apparently not issued or never cleared the bank. Checks that were actually voided were not always properly defaced and retained.

To properly account for all disbursements, check information should be recorded accurately on the check registers, and checks should be issued numerically and recorded in numerical order on the check registers. In addition, voided checks should be properly defaced and retained.

- C. Some annual settlements prepared by the Public Administrator's office were not complete or accurate. Our review noted numerous check amounts, payees, and check numbers which were inaccurately reported on the annual settlements. For example, a completely different check number sequence was reported on one annual settlement than the check numbers actually used. On other settlements, some checks that were issued were not reported and some checks that were reported were apparently not issued. In addition, receipts were not always accurately reported on some settlements.

To ensure the financial activity of the estates is accurately reported to the Probate Court, all receipts and disbursements should be accurately recorded on the annual settlements.

- D. Some annual settlements were approved by the Probate Court even though corresponding bank statements and canceled checks were not filed with the court. The Probate Court's procedures require the filing of the bank statement for the last month of the settlement period along with canceled checks for the entire settlement period; however, this was not always done. The Probate Division Clerk indicated that she sends reminders to the Public Administrator when the proper bank information is not filed; however, if the bank information is never

received, the Probate Division Clerk indicates this on the annual settlement and the settlements are approved by the Probate Judge. Without receiving and comparing the bank information to the annual settlements, the Probate Court could not be assured that the ending checking account balances reported on the annual settlements were correct nor verify the accuracy of the receipts and disbursements recorded on the annual settlements.

- E. The Public Administrator is bonded as required by state law; however, her current and former accounting clerks are not bonded. As a means of safeguarding assets and reducing the risk if a misappropriation of funds would occur, all employees handling monies should be adequately bonded.

WE RECOMMEND the Public Administrator:

- A. Adequately segregate accounting duties or continue to periodically perform and document reviews of the accounting records and bank reconciliations.
- B. Issue checks numerically, account for the numerical sequence, and ensure all check amounts and information are accurately recorded in the check registers. In addition, all voided checks should be properly defaced and maintained.
- C. Prepare annual settlements which accurately report all estate receipts and disbursements.
- D. File all bank statements and canceled checks with the annual settlements. In addition, the Probate Judge should require bank statements and canceled checks be filed and compared to the annual settlements to help ensure the settlements are complete and accurate prior to approving them.
- E. Obtain bond coverage for all employees with access to assets.

AUDITEE'S RESPONSE

The Public Administrator provided the following response:

- A. *I have my assistant reconcile each bank statement as they come in and then I personally check each account and document this by initialing and dating them.*
- B. *This was a procedure my previous clerk did. This is not done now. This I also am able to control by handling all bank statements.*
- C. *I personally prepare all annual settlements and have my assistant type these reports to check for my errors. I have not filed any late settlements since this procedure was adopted.*

- D. *All canceled checks and voided checks are filed with each settlement that I prepare. In the past, we were being told checks and bank statements were lost in the mail. We now know this was not true.*
- E. *I called the County Clerk's office and was informed that the county did not have a blanket bond for county employees. I told them that this was a suggestion made by the auditors. I was then told this was not something that would be done anytime soon but would be brought to the attention of the County Commission.*

The Probate Judge submitted the following response:

- D. *I take full responsibility for the policies and procedures in my office. I believe your recommendations are appropriate and I am immediately implementing them. The attorneys, conservators, and personal representatives with cases here will be required to file all bank statements and all checks with any settlement and no excuses will be accepted.*